households with a calling plan would have been roughly 18 percent in 1991. A plausible estimate of the increase in AT&T's average interstate rates, accounting for discounts, is about 14 percent from 1991 to 1998.[28] Yet during the period, as I mention above, AT&T's access costs declined by 35 percent, and its other costs per minute presumably declined as well.

20. To illustrate an example of the net effect for the major long distance carriers, the following table summarizes my findings regarding AT&T's interstate residential toll rate changes:

Table 2
AT&T's Average Interstate Consumer Toll Rate Changes
($ per Conversation Minute)

	12/91	*1/98*	*Change*	*% Change*
Basic Rate	$0.154	$0.191	$0.037	24
Access Charge	$0.070	$0.045	-$0.025	-35
Basic Rate Net of Access	$0.084	$0.146	$0.062	73
Average Discount	6.5%	13.9%		
Rate with Discount	$0.144	$0.165	$0.020	14
Rate with Discount Net of Access	$0.074	$0.115	$0.045	60

*Numbers might not add because of rounding.

Thus, for AT&T's residential customers as a whole, AT&T raised interstate toll rates net of access charges by 60 percent from 1991 to 1998, even accounting for discounts.

B. The new flat rate calling plans do not change the results.

21. The interexchange carriers have introduced calling plans with flat per-minute rates. One example is AT&T's One Rate plan, which charges 15 cents per minute regardless of distance or time of day, while MCI has at times promoted similar flat rate plans of its own. These new

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[28] I assume that, between 1991 and 1996, the average discount is proportional to the percentage of households that have calling plans. Therefore, I estimate that the average discount in 1991 was 0.139*18/38.4=0.065, where 0.139 is the average discount in 1995, 38.4 is the percentage of AT&T households with calling plans in 1996, and 18 is the percentage of AT&T households with calling plans in 1991. Then, accounting for discounts, the increase in residential rates from 1991 to 1998 was (1+0.24)*(1-0.139)/(1-0.065)-1 = 0.142, where 0.24 is the cumulative fractional increase in AT&T's basic rates from 1991 to 1998.

plans do not change the conclusion that the major long distance carriers have increased rates since 1991. For example, I have found that, for the U.S. as a whole, residential customers make direct-dial domestic interstate interLATA calls that would average about 18.1 cents per minute if they were rated at AT&T's basic tariff rates that took effect on November 8, 1997.[29] Since 15 cents under the One Rate plan is lower than 18.1 cents, the One Rate plan might be attractive to many residential consumers who are paying basic rates.

22. The flat rate plans would not benefit all residential customers, however. For example, these plans generally would not be attractive for customers who make most of their calls on weekends, when the basic AT&T rate, for example, is 13 cents per minute. AT&T 15 cent One Rate plan's rate is also only one penny less than AT&T's current weeknight rate. Further, the new plan would not benefit many customers who are already on another plan. For instance, a True Reach customer who already receives a 25 percent discount would typically pay more under the One Rate plan.[30]

23. Finally, the primary reason that some consumers might find the One Rate plan attractive today is that AT&T has substantially raised its basic rates over the last several years. If instead AT&T had merely passed through its savings in access charges—even ignoring its other cost savings—then its 15-cents-per-minute One Rate plan would be unattractive in comparison. As I have said, AT&T raised its basic rates by about 24 percent between 1991 and 1998. Suppose that AT&T had not increased its rates. Then today the average basic rate for direct-dialed calls would be only about 14.6 cents a minute.[31] If AT&T had passed through the industry-average decrease in access charges of 2.5 cents a minute from 1991 through January 1998,[32] then

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[29] Based on AT&T's tariff and on calling data for AT&T customers in the U.S. from PNR and Associates' "Bill Harvesting III," *Op. Cit.*

[30] $0.181*(1-0.25) = $0.136, which is less than the rate of $0.15 per minute for the One Rate plan.

[31] Based on calling data from "Bill Harvesting III," *Op. Cit.*., and AT&T rates in effect on November 8, 1997, the average basic rate for domestic direct-dialed calls for U.S. residential customers was $0.181. $0.181/1.24 = $0.146. I implicitly assume that AT&T increased rates for direct-dialed calls by about the same percentage as for other calls from 1991 to 1998.

[32] *FCC Monitoring Report*, *Op. Cit.*, and "Trends in Telephone Service," *Op. Cit.*

AT&T's average basic direct-dialed rate today would have been 12.1 cents a minute, which is 19 percent less than its 15-cents-per-minute rate for its One Rate plan. If AT&T had also passed through its other cost reductions, today's basic rates would be even lower. In summary, net of access charges, AT&T increased basic rates for direct-dialed calls by about six cents per minute, or 78 percent.[33] If instead it had passed through its cost decreases, as would have happened in a truly competitive market, AT&T's touted One Rate plan would be irrelevant. Thus, in introducing their flat rate plans, the long distance carriers have nothing to brag about. Still, their pricing plans have been clever: (1) They were able to charge supracompetitive rates for residential customers for several years. (2) Just in time for the Section 271 proceedings, they have now introduced their flat rate plans, which they can hope might sway some opinions during the proceedings. (3) And they can be confident that, in spite of making the flat rate plans available, many customers will continue paying basic rates for quite a while. The combination of rising basic rates and optional calling plans, which the long distance carriers change over time, effectively exploits many customers' lack of information and inertia. With their pricing, the interexchange carriers segment the market and separate the active "bargain-hunters" from the "victims."

C. MCI's ARPM analysis violates price index theory.

24. On MCI's behalf, Professor Hall submits data that purports to show that the Big Three IXCs reduced rates by more than the local exchange carriers reduced access charges.[34] However, his proxy for rates is average revenue per minute (ARPM). I have explained above why ARPM is deficient in measuring changes in rates. Price index theory specifies that, to avoid such problems, one should evaluate price changes by holding constant a "market basket" of consumer purchases. The above results in the prior section satisfy this requirement, while

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[33] ($0.181-$0.0451)-($0.146-$0.0697) = $0.060. ($0.181-$0.0451)/($0.146-$0.0697)-1 = 0.78.

[34] I note that Professor Hall's data on average access charges is inconsistent with the FCC's data, even accounting for inflation. Professor Hall's description of his data series is insufficient to reconcile the two data series.

taking into account changes in consumers' subscriptions to calling plans. Professor Hall's data violates this requirement and so is suspect.

IV. Access Charges Above Incremental Cost Are Not Anticompetitive.

25. MCI asserts that having access charges above costs enables the LECs to impose a price-squeeze on their long distance competitors, which will be competitively disadvantaged.[35] I am surprised that MCI keeps asserting this tired argument after I and others have shown that it is fallacious.[36] I think that everyone now agrees that current rates for carrier access are above the incremental cost of providing the service. This differential has helped to recover common and shared fixed costs of operating a multi-use local telephone network and to keep rates lower for other services—in particular, residential basic service. This fact does not imply that a local exchange carrier could harm competition if it were to enter the long distance market.

26. Typically, as in MCI's Petition, an IXC simply asserts—without support—that a local exchange carrier would impose a price-squeeze on its long distance competitors if it were to enter the long distance market. Sometimes, however, an IXC will provide more detail. I have seen two versions of the price-squeeze claim. One I will call the "naïve" version, and the other I will call the "alternative" version.

27. First consider the "naïve" version. According to this version, to maximize overall corporate profits, the LEC's long distance affiliate would choose a price level using the true economic cost of carrier access in its calculations rather than the tariff price of carrier access that the incumbent interexchange carriers must pay. As the argument goes, the affiliate could profitably take customers away from its competitors even if it were less efficient than its competitors. Unambiguously, this naïve argument is wrong. If a LEC's long distance affiliate were to take

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[35] MCI Petition, *Op. Cit.*, pp. ii, iii, 2, 6, 8.

[36] See, e.g., Reply Affidavit of Richard L. Schmalensee, *In the Matter of SBC Communications, Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc., for Provision of In-Region InterLATA Services in Oklahoma*, CC Docket No. 97-121, ¶¶20-31.

minutes away from a competitor, then the LEC would no longer receive carrier access revenues from that competitor. To make decisions about how to maximize profits, the LEC corporate parent must recognize the lost access revenues as an opportunity cost of having its long distance affiliate carry those minutes. If the affiliate cannot earn enough revenue to cover both its own costs and the opportunity cost of access, then its taking the minutes away from the competitor would be unprofitable for the LEC corporate parent. If the vertically integrated LEC finds it profitable to take minutes away from competitors, it must either be (1) because the LEC and its affiliate are more efficient than the competitor IXCs or (2) because the competitor IXCs charge long distance rates above their costs.

28. There are two additional reasons why claims of a price squeeze are unfounded. First, in order for a price squeeze to be successful, competing long distance carriers must be unable to avoid the price squeeze. But with competition for access services increasing rapidly, and with unbundled elements available to allow competitors to, in effect, bypass the local loop in instances where competitors do not yet have alternatives to the last mile (the so-called bottleneck) of the existing local exchange network, the availability of alternatives would defeat any attempt to impose a price squeeze. Second, as the Commission has recently noted, imputation requirements and the regulatory safeguards prevent a price squeeze from occurring.[37]

29. The more subtle "alternative" version of the price-squeeze argument typically runs something like this: This argument does not assume that a vertically integrated LEC can increase profits simply by taking minutes away from competitors. A key part of the argument, which is correct is that, since the LEC's rates for carrier access exceeds its incremental costs, it could increase access profits if its long distance affiliate could cause industry output to expand.[38] It might induce such an expansion by aggressive pricing or by offering advanced

[37] FCC 96-489, First Report and Order, CC Dkt. No. 96-149 at ¶ 13 (rel. Dec. 24, 1996).

[38] Even this assumption is becoming outdated as access reform shifts cost recovery from per-minute prices to per-line prices. With per-minute prices approaching incremental cost, there is a reduced incentive to increase output.

services or higher quality service. To this point in the argument, there is no policy problem, since the vertically integrated LEC improves economic welfare, driving prices closer to economic costs.

30. Some argue, however, that a LEC and its long distance affiliate (an "integrated LEC") might expand output even if it were less efficient than its rivals.[39] The potential for an economic problem in this theory arises because the gain in economic welfare from driving long distance prices closer to economic costs might be exceeded by the increase in industry costs. If so, there theoretically could be a loss of economic efficiency. However, as my co-authors and I pointed out in a recent paper,[40] such losses would be outweighed by consumer economic welfare gains from the expansion of industry output as long distance prices are driven closer to economic costs. We found conclusively that, for a wide range of reasonable assumptions, the entry of a vertically integrated LEC would cause an increase in total economic welfare, even in the hypothetical scenario in which it is less efficient than its rivals.[41] Therefore, the long distance market is improved—not hurt—by LEC entry.

V. ACCESS CHARGES ABOVE INCREMENTAL COST ARE NOT A FINANCIAL DRAIN ON MCI.

30. MCI asserts that pricing access above cost constitutes a financial drain on the IXCs.[42] In particular, it asserts that that financial drain has slowed the IXCs' entry into the local market:

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[39] Franklin M. Fisher, "An Analysis of Switched Access Pricing and the Telecommunications Act of 1996."

[40] Paul J. Hinton, J. Douglas Zona, Richard L. Schmalensee, and William E. Taylor, "An Analysis of the Welfare Effects of Long Distance Market Entry by an Integrated Access and Long Distance Provider," *Journal of Regulatory Economics*, Vol. 13 (1998), pp. 183-196.

[41] We estimated that entry by a vertically-integrated LEC, maximizing total corporate profits, would increase net consumer plus producer surplus by $0.80 per line per month. There are about 100 million residential lines in the U.S.; thus, on a national basis, that represents a welfare gain for residential customers alone of about $1 billion a year. Even under an extreme assumption that the LEC's long distance affiliate might be 20 percent less efficient than the incumbent interexchange carriers, the welfare gain still exceeds $0.60 per line per month.

[42] Petition at i, 7, 8.

> Not only can a facilities-based strategy not be counted on to reduce access to cost, but the current level of interstate access charges constrains the financial resources available for IXCs to pursue a facilities-based local strategy[43]

> But given the continued financial drain caused by access rates priced nearly eight times (or $13 billion) above cost, the spread of competition into new markets has been significantly slowed. As long as access rates remain above forward-looking economic cost, RBOCs will control local bottleneck facilities and continue to line their pockets with capital that long distance companies could otherwise invest in local facilities.[44]

These assertions are clearly fallacious for a number of reasons.[45] First, while MCI is correct that the degree to which exchange access rates exceed forward looking costs affects an IXC's incentive to enter local markets, the direction predicted by economic theory is exactly the opposite of that predicted by MCI. Higher exchange access prices *increases* the profitability of entering local markets. An IXC has much more to gain from entering the local market when exchange access rates are above economic costs because of the cost savings resulting from self-provisioning carrier access. The lower carrier access charges MCI is requesting would *reduce* its incentive to enter local markets.

32. MCI is also fundamentally incorrect when it asserts that high carrier access charges negatively affect its ability to enter local markets. As a general matter, the price of an important input such as carrier access does affect the ability of non-integrated carriers to vertically integrate into local markets. But once again, the direction is opposite to what is predicted by MCI. Long distance companies will invest in enterprises and projects they believe

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43 *Ibid.* at i.

44 *Ibid.* at 7-8.

45 To begin with, while no one disputes that carrier access charges exceed forward-looking incremental cost, the $13 billion figure is an obvious exaggeration. Since this figure corresponds to no accounting data from the local exchange carriers, it is probably derived from the flawed Hatfield model. Based upon detailed investigations of the many different versions of the Hatfield model, it is clear to me that use of this model seriously underestimates the costs incurred by local exchange providers. To put MCI's estimate in perspective, in 1997, per-minute interstate carrier access charges for all price cap LECs—including the carrier common line, transport interconnection charge, transport and switching—amounted to approximately $14 billion. [Bellcore release of its rollup of price cap revenue changes from 12/17/97 midyear filing, dated January 14, 1998]. MCI's estimate thus implies that the costs incurred by the ILECs when providing interstate access services are practically nonexistent, a result that defies common sense.

to be profitable. Capital markets provide funds to finance projects only to the extent they believe the investment provides a return at least sufficient to recover the lender's opportunity cost. Holding other factors constant, higher carrier access prices increase the returns to entering local markets, thus increasing the likelihood of obtaining timely and sufficient capital funds, either internally or from the capital markets.

33. As an empirical matter, there is no indication that AT&T, MCI-WorldCom, or Sprint are unable to obtain capital—either internally or from the capital markets—for profitable investment. Absent such constraints, it is economic nonsense to claim that, if lower access charges were to increase long distance companies' profits, then the additional earnings would make possible increased investment in local competition. The constraint on entering local markets is not the profitability of the company making the investment but the potential profits from entering local markets.

34. Standard economic analysis reveals MCI's true intentions. In a competitive market with no barriers to entry, a change in access charges would be passed on to consumers, not borne by the IXCs. A reduction in access charges translates into a reduction in marginal costs, which would be passed through—penny for penny—in lower per-minute long distance prices. The resulting lower long distance prices would lead to additional long distance demand, and because long distance carriers bear significant fixed costs, this demand stimulation would reduce the IXCs average unit costs by more than the per-minute reduction in access charges. If the incumbent long distance carriers did not reduce prices to the new, lower average costs, then additional entry would occur to drive prices down to average unit costs. Thus, in an effectively competitive industry with important fixed costs and low entry barriers, a one cent per-minute reduction in carrier access charges would result in a reduction in long distance prices of more than one cent. Yet in its Petition, MCI claims that reducing access charges would increase the funds it would have available to enter local markets. It claims that high access charges "constrain the financial resources available for IXCs to pursue a facilities-based strategy."[46]

[46] Petition at i.

This argument clearly implies that MCI believes that a reduction in access charges would increase its financial resources. In other words, MCI believes that it has the ability not to pass through access charge reductions ordered by the Commission to its customers to the extent required by truly competitive market forces. As MCI candidly but inadvertently reveals here, it expects to achieve higher profits if access charges are reduced. This expectation is consistent with our historical evidence (in Section III), which shows that the IXCs have earned higher profits in the past from their failure to reduce prices to the extent that they would have been reduced in an effectively competitive market.

William E. Taylor

William E. Taylor

Subscribed and sworn to before me this
13th day of March, 1998

Christiana Olsen

Notary Public

My Commission expires
September 18, 2003

EXHIBIT 3

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
MCI Telecommunications Corp.	)	
	)	CCB/CPD 98-12
Petition for Prescription of Tariffs Implementing Access Charge Reform	)	
	)	

DECLARATION OF FRANK J. GUMPER
ON BEHALF OF BELL ATLANTIC

I, Frank J. Gumper, do hereby declare as follows:

1. My name is Frank J. Gumper. I currently am Vice President – Long Range Public Policy in the external affairs organization at Bell Atlantic. My responsibilities in this position include, among other things, federal regulatory planning in the areas of access reform and universal service. The purpose of this declaration is to describe my own first hand experience with the way in which MCI has quietly increased the prices it charges to residential customers who are on calling plans that it no longer actively promotes.

2. I became an MCI customer in late 1996, and have remained an MCI customer ever since. At the time that I signed up for its service, MCI was marketing their MCI Minutes plan which included a single price for all standard, direct dialed long distance calls of 15¢ per minute regardless of the time of day or the day of the week. In addition, the plan included a personal 800 number with a price of 25¢ per minute and credit card calls at a price of 25¢ per minute with an 89¢ per call surcharge.

3. Like most customers, I typically scan my long distance bills when they arrive to be sure that they look reasonable and do not include calls that I did not make. Until recently, however, I did not do anything further to analyze the rate that I was being charged on individual calls.

4. In response to the claims made by MCI in its petition here that it has reduced long distance rates, I decided to find out whether and how the rates that I pay had

changed over time. The first thing I did was to review one of my recent bills in detail for the first time. That review revealed that I was being charged 5¢ a minute for standard calls that I made on Sundays, but was being charged significantly more for other calls than was called for in the plan that I signed on for in late 1996.

5. As a result, I called an MCI service representative to ask about the higher charges on my bill. I was told that certain changes had occurred in MCI's prices over the last year. These included:

June '97	15¢ per minute increased to 16¢
July '97	89¢ surcharge increased to 99¢
Sept. '97	5¢ Sundays introduced
Nov. '97	credit card 25¢ per minute increased to 30¢
Dec. '97	16¢ per minute increased to 19¢
Jan. '98	19¢ per minute increased to 21¢ plus a $1.07 National Access Fee

6. When presented with this description of the significant price increases that MCI had imposed, I stated that per minute costs were decreasing and that MCI claimed it was reducing its toll rates. In response, I was told only that "some plans go down while others go up."

7. The result of these changes is to significantly increase the price that I pay for long distance. I have attached a comparison based on the actual usage from my January bill of what I would have paid under the pricing plan I signed up for and the amount I actually paid under MCI's higher rates. As this comparison shows, assuming all the activity on my account is billed at current rates, my bill increased by 16.4% over the rates I signed up for when I switched to MCI in 1996.

8. The attachment also includes a comparison to what I would have paid under the MCI One plan, which is cited in MCI's petition as the plan that it currently is promoting that supposedly produces the savings touted by MCI. This comparison shows that the price I pay would have increased even further if I had switched to the plan that MCI is pushing – an increase of some 24.8% over the rates that I signed up for in 1996.

Attachment 1

JANUARY INVOICE

			MCI MINUTES	MCI ONE
		MAY '97 Rates	JANUARY '98 Rates	
M-SAT	106 mous	15.90	22.26	12.72
Sun	41mous	6.15	2.05	2.05
Credit Card	11 calls	9.79	10.89	10.89
	158 mous	39.50	47.40	63.20
800 #	15 mous	3.75	3.75	3.75
National Access Fee	-		1.07	1.07
TOTAL		**$75.09**	**$87.42**	**$93.68**
			+16.4%	+24.8%

I, Frank J. Gumper, hereby declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge and belief.

Frank J. Gumper

Dated: March 18, 1998

EXHIBIT 4

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Sprint Corporation	)	CCB/CPD Dkt. No. 98-2
	)	
Request for Declaratory Ruling Regarding Application of PICCs	)	

OPPOSITION OF BELL ATLANTIC[1]

The Commission should reject Sprint's petition to relieve long distance carriers of their obligation to pay the presubscribed interexchange carrier charge ("PICC") for lines of those end users that they choose to terminate as customers.

Sprint acknowledges that the situation of a customer continuing to presubscribe to a long distance carrier that has terminated his or her service is atypical. Indeed, it may be that the only time this situation will arise is when there is an ongoing service dispute with the long distance carrier. But in that situation, it is inappropriate to relieve that carrier of its PICC obligation and impose it on the customer. Moreover, it would be unreasonable to require the local service provider to act as the collection agent for that charge (as Sprint proposes), when the local provider will have no information concerning the nature of the dispute with the long distance carrier. Consequently, the Commission should not change its

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[1] The Bell Atlantic telephone companies ("Bell Atlantic") are Bell Atlantic-Delaware, Inc.; Bell Atlantic-Maryland, Inc.; Bell Atlantic-New Jersey, Inc.; Bell Atlantic-Pennsylvania, Inc.; Bell Atlantic-Virginia, Inc.; Bell Atlantic-Washington, D.C., Inc.; Bell Atlantic-West Virginia, Inc.; New York Telephone Company; and New England Telephone and Telegraph Company.

rules to relieve long distance carriers of their PICC obligations – at least in the absence of any experience under the existing rules demonstrating that there is any problem to be solved.

ARGUMENT

In its recent Access Reform decision, the Commission created the PICC to cover a portion of the interstate common line costs of local carriers. In creating this new rate element, the Commission found that an additional end-user charge could "make telecommunications service unaffordable for some consumers." ***Access Charge Reform***, 12 FCC Rcd 15982, ¶ 52 (1997) ("Access Reform Order"). As a result, it placed the new charge "not on the end user, but on the end user's presubscribed interexchange carrier." ***Id.***

On the day before this charge was to go into effect, Sprint filed its petition seeking, for some customers, to place the charge back on the end-users. Sprint asks to abdicate its responsibility to pay the PICC for the lines of those customers for which Sprint "finds it necessary to terminate service" either for nonpayment of their bills or for other unspecified tariff violations. Sprint Petition at 1. As Sprint readily concedes, in the typical termination situation, the customer "quickly selects another long distance carrier." ***Id.*** In those situations, no relief is necessary, because the newly selected long distance carrier becomes obliged to cover the PICC for that customer's lines.

Sprint's petition only applies in the atypical situation where the customer for whatever reason does not seek a new long distance carrier. Sprint suggests that one explanation for not selecting a new carrier would be a situation where a customer relies on a dial-around service. But the Commission has explicitly rejected allowing the presubscribed carrier selected by a customer to avoid PICC charges because a customer relies on dial-around long distance service. *See* Access Reform Order, ¶¶ 92-93.

Another reason a customer may not seek a new carrier is if the customer has a billing or other tariff dispute with its selected long distance carrier. In that situation, the customer may choose to retain the original long distance carrier as his or her selected provider while the dispute is being resolved. The long distance carrier cannot unilaterally deselect itself.[2] Moreover, Sprint's proposal would forcibly inject the local carrier into the middle of the long distance carrier's billing or tariff dispute. This is so because, under the Sprint proposal, the local carrier would be required to bill the customer for the PICC as if that customer had not selected a presubscribed long distance carrier. But a customer that believes his or her prior selection of a long distance provider is still valid despite a dispute with that long distance carrier will be unwilling to pay an additional charge to the local carrier just as if the customer had not made a selection. The end result is that the local carrier will be unable to collect the PICC from anyone, and will have no information to evaluate the nature or the validity of the dispute between the customer and the selected long distance carrier.

This scenario is of special concern for two reasons. First, long distance carriers, including AT&T and MCI, used access reform as an excuse to increase prices. Despite the fact that the PICC charge was more than offset by the decreases in per-minute rates

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[2] Under current rules, it is clear that any change in the designation of a presubscribed long distance carrier must be made by the customer and not the carrier. *See* 47 C.F.R. §§ 64.1100, 64.1150 (setting forth the customer authorization requirements necessary before a carrier can effectuate a change in a customer's presubscribed long distance provider).

ordered by the Commission, the long distance carriers apparently chose ***not*** to lower their basic per-minute rates to pass on this reduction to consumers. Instead, the long distance carriers ***raised*** their prices by imposing new charges.[3]

For example, AT&T has imposed a new carrier line charge of $1.50 for every additional residential line. AT&T misleadingly suggests that this new revenue "will be given to local telephone companies and will not provide any profit to AT&T."[4] Similarly, MCI has imposed a wide range of new charges that include a per-line "national access fee" as well as a universal service surcharge of up to 30% of a customer's bill, and has blamed the Commission for these new charges. ***See*** M. Mills, "Some MCI Customers Seeing Surge in Phone Bills," Washington Post at H3 (Jan. 31, 1998).

In reality, the new charges imposed by the long distance carriers grossly exceed any PICC or universal service fees that will have to be borne by the long distance carriers and appear designed to pad the long distance carriers' profits. Even taking into account both access reform and new universal service obligations, the net cost increase to the long distance carriers is approximately $265 ***million***. The long distance industry price increase attributed to these changes would generate approximately $2.3 ***billion*** annually in additional revenue.

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[3] Sprint has participated in this increase with price increases designated as universal service and presubscribed line charges. ***See*** Sprint Tariff FCC No. 1 at p. 38 (effective Jan. 1, 1998).

[4] Attachment A is a copy of AT&T's explanation printed from AT&T's world wide web site (http://www.att.com/line_charge/).

The abuses engaged in by the long distance carriers are likely to generate additional disputes with their customers. Under these circumstances, it would be all the more unreasonable to force local carriers into the middle of such disputes by allowing long distance carriers to jettison customers that challenge the inflated charges imposed on them by the long distance carriers.

Second, Bell Atlantic is concerned that some long distance carriers are looking for opportunities to terminate their relationship with low volume callers. Indeed, AT&T's chairman has recently announced a "crackdown" on "occasional callers" – a term that refers to 20 million customers who make fewer than 3 long distance calls per month. Communications Daily at 2, "AT&T's Armstrong Announces Job Cuts, Says Senior Management 'Owns Strategy'" (Jan. 27, 1998). AT&T Chairman Armstrong claims his new approach "will be to force" these residential customers "into a pricing plan that allows [the] company to make money or allow them to leave." ***Id.*** It would be unreasonable for a carrier to try to force a low volume customer off its service and then claim that its behavior should be rewarded with absolution from its PICC responsibility for that customer. Indeed, it is interesting to note that Sprint has identified "customers who seldom make long distance calls" as the atypical group that will be affected by its proposal. Sprint Petition at 1.

While it may be premature to suggest that long distance carriers will intentionally force less profitable customers off their rolls, it is also premature to suggest that those carriers have a legitimate concern that there will be customers that have been reasonably terminated and yet still retain their original carrier as their presubscribed choice. At this point, where there has not been any opportunity to gather actual experience in PICC collection, the Commission should reject the Sprint petition and allow its rules to work as contemplated in the Access Reform Order.

Conclusion

For these reasons, the Commission should reject Sprint's petition.

Respectfully submitted,

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Attorney for the
Bell Atlantic Telephone Companies

Edward D. Young, III
Michael E. Glover
Betsy L. Roe
Of Counsel

February 10, 1998

AT&T Home Page
Consumer and Business Alert
New Charges
(www.att.com)

Attached are two documents copied off the AT&T Home Page.

These documents were placed on the web by AT&T to provide customer's with information regarding new charges they may see their bills.

The first document, the "Carrier Line Charge," is targeted to consumers and provides information regarding this new charge.

The second document, "Access Reform and The Telecommunications Act," is targeted to business customers and provides information regarding a number of new charges.

Both documents are misleading. The Carrier Line Charge document states that, "The money collected from this charge will be given to local telephone companies and will not provide any profit to AT&T." In fact, if AT&T has not reduced its toll rates to reflect the LEC's reduction in their switched access usage rates, AT&T is obtaining a significant profit from this new charge.

In the document on Access Reform and The Telecommunications Act, AT&T states, "To date, access reform has resulted in only a small decrease in the switched access charges IXCs pay to local phone companies." In fact the IXCs have obtained over $2.7B in switched access usage charge reductions. Any reasonable person would agree that a $2.7B reduction is anything but a small decrease.

Carrier Line Charge

We understand that you have questions, and hope this explanation will help you see why the Carrier Line Charge is on your bill.

This charge is the result of a new policy. This policy permits local telephone companies to charge flat fees to long distance companies based on the number of telephone lines subscribed to for long distance service. For the additional telephone lines in your house, AT&T is covering its cost for these lines through the Carrier Line Charge. This charge will be shown monthly at one dollar and fifty cents for each additional line that you have.

Please note that if you do not have additional lines in your household you will not see this charge on your bill.

The money collected from this charge will be given to local telephone companies and will not provide any profit to AT&T.

Thank you. We hope you now have a better understanding of this charge. Please note that this charge will not be waived.

Access Reform and the Telecommunications Act of 1996

Welcome. And thank you for allowing AT&T to serve you on the web. If after reviewing the information below, you still have questions on changes to your AT&T bill in connection with Access Reform and the Telecommunications Act of 1996, please send email. We will reply within 5 business days.

- **background**
- **how it impacts your business**
- **frequently asked questions**
- **send email**

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background

In 1998, the entire telecommunications industry will experience "access reform." This reform is a result of the Telecommunications Act of 1996, through which Congress gave the FCC the responsibility of implementing access reform. In May 1997, the FCC issued two companion orders:

1. **The Universal Service Order:** Expanded the Universal Service Fund (USF) which will support telecommunications services for schools, libraries, low-income consumers, rural healthcare providers and high-cost, rural and insular areas.
2. **The Access Charge Reform Order:** Restructured the way access charges are collected, and established Presubscribed Interexchange Carrier Charge (PICC), a charge that Interexchange Carriers will pay Local Exchange Carriers.

Access reform will affect every Interexchange Carrier (IXC) in the industry, including AT&T. To date, access reform has resulted in only a small decrease in the switched access charges IXCs pay to local phone companies. Meanwhile, the new expenses that IXCs will incur are substantial. The Universal Service Fund, which is projected to be $4.4 billion in 1998, is three times the size it was before the order. (AT&T expects to pay nearly $1.3 billion into the Universal Service Fund in 1998.) AT&T further expects its 1998 PICC expense to be $1.0B.

To recover these expenses, AT&T will begin to bill two new charges in January, 1998:

1. The **Universal Connectivity Charge**, which recovers costs associated with the Universal Service Fund; and
2. The **Carrier Line Charge**, which recovers costs associated with PICC.

AT&T is implementing these charges to recover its costs, and does not